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Recommendation for a

**COUNCIL RECOMMENDATION TO FRANCE**

**with a view to bringing an end to the situation of an excessive government deficit**

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## COUNCIL RECOMMENDATION TO FRANCE

**with a view to bringing an end to the situation of an excessive government deficit**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(7) thereof;

Having regard to the recommendation from the Commission;

Whereas:

- (1) According to Article 104 of the Treaty Member States shall avoid excessive government deficits.
- (2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.
- (3) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run. It aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.
- (4) The Council has decided on [XX April 2009], based on data notified by the French authorities for 2008 and in accordance with Article 104(6), that an excessive deficit exists in France.
- (5) In accordance with Article 104(7) of the Treaty and Article 3 of Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>1</sup> (which is part of the Stability and Growth Pact), the Council is also required to make recommendations to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. The recommendation has to establish a deadline of six months at the most for effective action to be taken by the Member State concerned to correct the excessive deficit as well as a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances, and to request the achievement of a minimum annual improvement in the structural balance, i.e. the cyclically-adjusted balance excluding one-off and other

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<sup>1</sup> OJ L 209, 2.8.1997, p. 6.

temporary measures, of 0.5% of GDP as a benchmark. In deciding whether special circumstances exist, “relevant factors” as clarified in Article 2(3) of Regulation (EC) No 1467/97 should be taken into account.

- (6) In line with the greater flexibility in the application of the EDP introduced with the 2005 reform of the Stability and Growth Pact, special circumstances are deemed to exist in the case of France. In the last quarter of 2008, the economic environment deteriorated sharply and GDP contracted by 1.2% quarter-on-quarter, after a positive growth of 0.1% in the third quarter. This sudden deterioration results from the global financial crisis that affected the European Union more generally and prompted the Council on 12 December 2008 to agree on the European Economic Recovery Plan (EERP), calling for a stimulus package. According to the Commission services' January 2009 interim forecast, the downturn in France is projected to continue well into 2009, when GDP should fall by 1.8% despite the implementation of the recovery plan. The existence of special circumstances authorises the Council to allow the correction of the excessive deficit in a medium-term framework.
- (7) The December 2008 stability programme envisages a further widening of the government deficit in 2009 to 3.9% of GDP taking into account the economic downturn and the fiscal impact of the recovery plan announced on 4 December 2008. Thereafter the programme contains plans for a successive reduction of the deficit to 2.7% of GDP by 2010 and 1.1% of GDP by the end of the programme period. In its opinion of 10 March 2009 on the French stability programme, the Council concluded that the budgetary targets are subject to downside risks. These risks are linked, in particular, to the non binding character of expenditure rules. Another risk mentioned by the Council was linked to the markedly favourable macro assumptions in the stability programme. On 4 March 2009, the Government revised substantially its growth projections for 2009 and 2010 to a range of [-1 and -1.5]% and [0.5-1]%, respectively, acknowledging that the projections in the programme were now outdated. According to the new forecast, the government deficit would reach 3.4% of GDP in 2008, 5.6% in 2009, 5.2% in 2010, 4.0% in 2011 and 2.9% in 2012.
- (8) It is appropriate to consider the correction of the excessive deficit in a medium-term framework in accordance with the path for deficit reduction as announced by the government on 5 March 2009<sup>2</sup> with a deadline for the correction of 2012. A credible adjustment path would require the French authorities to, first, implement the fiscal measures 2009 as planned in the Budget, which reflects also the fiscal impulse package presented in the context of the European Economic Recovery Plan. Second, additional annual fiscal efforts might be necessary so as to achieve the government deficit targets up to 2012 if downside risks to the budgetary targets were to materialize in a view to bring the government deficit below 3% of GDP in that year in a credible and sustainable manner. This adjustment path would be consistent with Art. 3(4) of Council regulation (EC) No 1467/97.
- (9) Enhanced surveillance under the EDP, which seems necessary in view also of the deadline for the correction of the excessive deficit, will require regular and timely monitoring of the progress made in the implementation of the fiscal consolidation strategy. In this context, a separate chapter in the updates of the French stability

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<sup>2</sup> Letter from Finance Minister Mme Lagarde to the European Commission

programme which will be prepared between 2009 and 2012 could usefully be devoted to this issue.

- (10) General government gross debt has been above the 60% of GDP reference value since 2003 and is estimated in the December 2008 updated stability programme at 66.7% of GDP for 2008, to increase to 69.4% in 2010 and to decline thereafter to reach 66.8% in 2012. According to the Commission Services' January 2009 interim forecast, the debt-to-GDP ratio should stand at 67.1% in 2008, and reach 72.4% in 2009 and 76% in 2010.
- (11) In general, in the view of the Council, budgetary consolidation measures should secure a lasting improvement in the general government balance, while being geared towards enhancing the quality of the public finances and reinforcing the growth potential of the economy.

#### HEREBY RECOMMENDS:

- (1) On the basis of the macroeconomic outlook of the Commission services' January 2009 interim forecast, the French authorities should put an end to the present excessive deficit situation by 2012.
- (2) The French authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework, in accordance with the path for deficit reduction as announced by the government on 5 March 2009. Specifically, to this end, the French authorities should:
  - (a) implement the fiscal measures in 2009 as planned in the budget;
  - (b) stand ready to implement the necessary annual efforts going beyond those foreseen in the subsequent years of the correction period in order to ensure that the annual targets are respected and ensure that the deficit is brought below the reference value by 2012 even if downside risks to the budgetary targets were to materialize;
  - (c) swiftly implement the planned measures and reforms to contain current expenditure over the coming years, especially in the areas of healthcare and local authorities;
- (3) To limit risks to the adjustment, France should effectively enforce existing expenditure rules and take further steps in order to guarantee the respect of the multi-annual expenditure reduction targets of the general government by all sub-sectors and continue to implement measures in the context of the General Review of Public Policies.
- (4) The French authorities should ensure that the government gross debt ratio is put on a sufficiently declining path and approaches the reference value at a satisfactory pace.
- (5) The Council establishes the deadline of [24 October 2009] for the French government to take effective action to implement the measures to achieve the 2009 deficit target of 5.6% of GDP and to specify the measures that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective actions will take

into account economic developments compared to the outlook in the Commission services' January 2009 interim forecast.

- (6) The French authorities should report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2009 and 2012.

In addition, the Council invites the French authorities to ensure that budgetary consolidation towards the medium-term objective for the budgetary position – a balanced budget in structural terms – is sustained after the excessive deficit will have been corrected. In this regard, the French authorities are invited to implement the planned structural reforms.

This recommendation is addressed to the French Republic.

Done at Brussels,

*For the Council  
The President*